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Dear Mr Hawker

I am pleased to present to you the Government's response to the recommendations of the report "Regional Banking Services - Money too far away" which was released by the House of Representatives Standing Committee on Economics, Finance and Public Administration in March last year.

I would also like to take the opportunity to pass on my appreciation for the excellent work your Committee does for the Parliament and to commend the Committee for its extensive consultations across Australia during the preparation of this report.

In addition, I would like to bring to your attention some issues relevant to the Govermnent's response to this report, including the fact that the Recommendations have been grouped by subject, rather than numerically, in order to enable a more constructive response to be presented to the Committee.

Firstly, I'm sure the Committee will be pleased to see that in the time since the Committee reported a substantial number of the Committee's recommendations have come to pass. In particular, the Government has been actively rolling-out the Rural Transaction Centres programme to maintain basic private and government transaction services in country Australia. In addition, funds from the Regional Telecommunication Infrastructure Fund are being allotted to ensure that rural, regional and remote Australia has the opportunity to participate and share in the benefits available from access to advanced telecommunications services.

Similarly the Commonwealth Bank and Australia Post have announced a pilot joint venture to make available business banking services to 30 rural communities at their local post offices.

One of the observations your Committee made in its report was that many of the difficulties being experienced in relation to access to banking services in country communities are essentially transitional. I am acutely aware of the dynamic nature of the global and Australian financial services industry. In preparing this response I have kept in mind the enormous structural changes sweeping the financial services industry and its impact on all sectors of the community.

The key issue to emerge from your inquiry would appear to be whether or not country communities have access to full transactional banking. In the immediate future, the evidence clearly suggests that some form of face-to-face facility is required as technology, while it has the potential to, has yet to supply an alternative that meets all the needs of the communities concerned.

Face-to-face banking does not, however, require the existence of the traditional bank branch. Indeed, there is a danger that any attempt to try and force the retention of traditional banking infrastructure upon the industry is likely to constrain innovation and competition and, as such, may not be in the long-term interest of the communities in question. For instance, electronic channels have increased the number of outlets with which customers from rural and remote communities can access banking services and the times of days these services can be carried out.

Aside from the vast potential that technological change offers to all communities, I am aware of a number of existing and contemplated developments that offer great hope for country communities some of which have been identified in the Committee's report. I believe that many financial institutions have undervalued their branch networks. In the future most customers will be multichannel users and branches are one of those channels as are websites, the telephone, EFTPOS or ATMs. I believe those financial institutions that neglect the branch network will risk related customer attrition. In response to Recommendation 21 of the Committee's report, I undertake to seek the Australian Prudential Regulation Authority's assistance in monitoring the practices of financial service providers in the event of closing branches and report back to the Committee as requested.

In regards to the timing of my report, I see value in this coinciding with the intended review of the reforms of the financial system introduced following the Wallis Inquiry. The Treasurer indicated in March 1998 that:

> *The [Financial Sector Advisory] Council will conduct a detailed evaluation of the financial sector reforms, announced on 2 September 1997,five years after their commencement.*

The forces driving the Wallis reforms - technology, globalisation and financial conglomeration - are also strong influences on the rationalisation of branch networks by the banking industry. As such, it seemed appropriate to postpone my report to the Committee for a year to enable it to be prepared in conjunction with this review. In response to Recommendations 3,17,19 and 20 of the Committee's report, the Government supports the Committee's recommendation that the financial services industry should develop a protocol which provides a guideline of the minimum standards of service delivery in the event of closing regional and remote branches. This would provide rural communities with more certainty about future access to face-to-face services. I will facilitate discussions with the financial services industry on this matter.

Yours sincerely

Joe Hockey
28 June 2000

COMMONWEALTH GOVERNMENT RESPONSE TO THE RECOMMENDATIONS OF THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS,. FINANCE AND PUBLIC ADMINISTRATION (THE HAWKER COMMITTEE) INQUIRY INTO REGIONAL BANKING SERVICES

ALTERNATIVE PAYMENT MECHANISMS

The Government agrees with the Hawker Committee that the provision of financial services via the Internet may provide the catalyst for the development and acceptance of new technology. It is believed that in the future, through web-based banking, customers may be able to conduct all their financial transactions via the net and direct "money" via their personal computers, telephones or even television screens to a range of accounts and organisations. Smartcard technology could complement web-based banking. Although the introduction of smartcards has been slow they are unlikely, as was the case with Electronic Funds Transfer at Point of Sale (EFTPOS), to capture the public imagination until they have been introduced into supermarkets, petrol stations and other areas of high retail traffic and until they have a range of applications and uses.

As raised in relation to Recommendation 96 of the Financial Sector Inquiry (Wallis Inquiry), "the method by which Governments make their own transfer payments could accelerate the development of alternative payment instruments". The Wallis Inquiry also noted that the use of cheques by government departments to make payments to customers “is not conducive to [the] adoption of alternative payments instruments by institutions and markets" of more cost-effective mechanisms. As the Committee would be aware, for a number of years now, recipients of tax returns and Medicare payments have had the option of having those payments made electronically. Social Security payments are now mostly made electronically. Additionally, the Government has an implementation strategy for Commonwealth Electronic Procurement that forms part of the *Investing for Growth* statement's commitment to bring all appropriate services online by 2001, and is a key component of the Commonwealth's overall *Government Online Strategy*.

The strategy sets two major goals to guide the implementation of electronic purchasing and payment by Commonwealth agencies:

To pay all suppliers to Government electronically by the end of 2000. This will be facilitated by the development of an electronic remittance advice for suppliers.

All simple procurement suppliers who wish to deal with Government electronically, using open standards, will be able to do so by the end of 2001.

Lastly, it is the Government's intention to conduct 90 per cent of purchase-related simple procurement transactions through electronic means by the end of 2001.

The Hawker Committee made two recommendations in relation to alternative payment mechanisms:

Recommendation 1

The Committee recommends that the Treasurer and the Minister for Financial Services and Regulation ensure that the Department of Social Security, in conjunction with the Commonwealth Services Delivery Agency, the Treasury and the finance sector, investigate and report on possible options for alternative payment instruments for government transfer payments as noted in the Government's response to the Recommendation 96 in the Wallis Report.

Recommendation 15

The Committee recommends that the Minister for Community Services directs Centrelink to give priority to developing and implementing a trial in a small rural community of a smart card product which could be:

- *reloaded over the telephone*
- *directly credited with government pensions*
- *used to purchase goods and/or services.*

As a normal part of looking for ways of providing a better service, Centrelink has investigated possibilities along the lines proposed in Recommendation 1. Alternative approaches using more traditional payment mechanisms were researched in conjunction with the Reserve Bank and were found to be unable to satisfy any reasonable cost/benefit analysis.

Other approaches based on new technology were also examined, including smartcards. They are, however, not realistic options at this stage. Furthermore, it would not be feasible for Centrelink to satisfy Recommendation 15 on its own. While technical impediments to the introduction of smartcards are few, the infrastructure is not presently in place for large-scale use or trial. Finance industry participants have advised Centrelink that it would be several years before the necessary facilities are in place.

One of the major impediments to the introduction of smartcards is the lack of a common operating platform or an industry wide standard, which can be used by financial service providers and other industries. Discussions are presently underway within the various industries to develop such a standard. However, until an agreement is made or a dominant player emerges, smartcards will not become a viable alternative payment mechanism for use on a large scale. The Committee should also be aware that to date there has been consumer reluctance to use smartcards in every day life. This will be the hardest obstacle of all to overcome affecting whether a critical mass, required to guarantee the commercial viability and general acceptance of the use of smartcard systems, can be achieved.

Centrelink is, nevertheless, monitoring developments of a number of public and private sector initiatives that may permit a trial of this sort. Where the business case for Centrelink involvement is strong, and implementation of a trial has the endorsement of the appropriate client department, Centrelink would purse the installation of smart card technology.

Notwithstanding the limitations to alternative payment instruments identified above, Centrelink has already introduced a new direct deduction facility for its customers called

Centrepay. This product allows a customer to pay ongoing expenses by making direct deductions from their social security payments to the bank accounts of providers of certain services. This helps the customer with their budgeting and allows them to avoid the problem of unnecessary service charges. The types of payments that can be made include payment of rent, fines and reparation orders, along with utility payments such as gas and electricity.

Centrelink has also come to an agreement with 5 new Rural Transaction Centres (RTC), which also deliver financial services, allowing Centrelink to increase their geographical spread for the delivery of services by using CreditCare outlets to deliver Centrelink services and to increase the awareness of other government agency services.

After negotiations with all the Approved Deposit-taking Institutions (ADIs), Centrelink had hoped to develop a definitive list of low cost accounts for use by its customers.

However, this has not proved to be feasible as financial institutions are constantly changing the nature of their account products to satisfy market demand.

As an alternative Centrelink has collaborated with the Australian Bankers Association (ABA) to produce a pamphlet for Centrelink customers advising on strategies to minimise service fees and charges and on the selection of appropriate accounts to meet individual needs.

This pamphlet, issued through the Centrelink network last November, has proved to be immensely popular with Centrelink customers. Consequently, it has been included in an edition of 'Aged Pension News' and is scheduled for inclusion in the next editions of magazines targeted at Centrelink's youth and newstart customer groups. The pamphlet has proved to be a valuable, simple product, which will be reviewed and released every 6 months.

ACCESS TO FINANCIAL SERVICES

As the Committee noted while new technology has increased the number of alternative channels available for the delivery of financial services, a process of rationalisation of the traditional branch network has accompanied the introduction of these channels. There is a perception that this rationalisation has had a greater impact on rural communities because of the reduced access to, or the loss of, banking and like services. In response to this, the Hawker Committee said that its main concern throughout the inquiry into regional banking services was "to find ways of ensuring that communities in regional and remote Australia, particularly those least able to take advantage of the new technology, maintain reasonable access to banking and like services in the short term and, ultimately, gain improved access in the long term".

As the Committee noted in the Report the face of the financial services industry is changing rapidly. At one level, access that the average person has to the financial system over the last two decades has increased considerably through competition and innovations in technology. The Government agrees with the Committee that country communities potentially stand to gain considerably from the widespread introduction of electronic financial services.

Face-to-face banking does not, however, require the existence of the traditional bank branch. Indeed, there is a danger that any attempt to try and force the retention of traditional banking infrastructure upon the industry is likely to constrain innovation and competition and, as such, may not be in the long-term interest of the communities in question. For instance, electronic channels have increased the number of outlets with which customers from rural and remote communities can access banking services and the time of day these services can be carried out.

Aside from the vast potential that technological change offers to all communities, the Government is aware of a number of existing and contemplated developments that offer great hope for country communities some of which have been identified in the Committee's report. The Government believes that many financial institutions have undervalued their branch networks. In the future most customers will be multichannel users and branches are one of those channels as are websites, phone calls, EFTPOS or ATMs. The Government believes those financial institutions that neglect the branch network will risk related customer attrition.

Recommendation 2

That the Minister for Regional Services, Territories and Local Government and the Minister for Financial Services and Regulation in consultation with State colleagues, undertake a collection of comprehensive data on the access communities have to financial services.

The Hawker Committee focused its attention, in relation to the access communities had to financial services, on how the number of branches and agencies of banks, credit unions and building societies have changed. The Committee acknowledged some of the limitations of the data obtained, such as the impact of mergers, the conversion of building societies and credit unions to banks and the separate collection of data relating to banks and non-banks. Another limitation is that the definition of a branch and an agency is not consistent across the financial sector. With technology enhancing the ability of financial institutions to deliver their services in new ways, the distinction between a branch and an agency is becoming increasingly ambiguous.

As such, the Government considers that it may be appropriate for any data collection assessing the access communities have to financial services to focus on access to transactional services. Full transactional services would include over-the-counter/face-to-face transaction services currently undertaken in branches and many agencies, and partial transactional services would currently include access to Automatic Teller Machines (ATMs) and EFTPOS. It is noted, however, that EFTPOS has the potential to provide a much broader service than it does currently.

The Government agrees with the Hawker Committee that the lack of comprehensive data on the availability of services to different regions makes it difficult to draw conclusions about the degree to which remote and regional communities have gained improved access to services through the introduction of electronic channels for the provision of financial services.

The Australian Prudential Regulation Authority (APRA) assumed responsibility for the collection of statistics relating to the Australian financial sector from the Reserve Bank of Australia (RBA) when APRA was formed in July 1998. Included in the data that APRA collects are figures on the number of branches and agencies each bank operates in Australia.

APRA, in consultation with the Australian Bureau of Statistics (ABS) and the RBA, has embarked on a major exercise to review and harmonise its data collection and analysis processes. The objectives of this review are to provide accurate, timely and relevant information to prudential supervisors in APRA and to ensure that APRA acts, where it is sensible, as the central repository for financial data from the regulated sector. A set of recommendations were presented to the Executive and Board of APRA for consideration at the end of 1999 and the implementation of the recommendations will commence in July 2001, in the case of new financial service returns, to allow the industry sufficient time to prepare for the changes. Collection of data in relation to regional outlets and access points will be modernised in consultation with the financial services industry and having regard to new technologies and practices in the marketplace.

The Government recommends that APRA take into account the recommendations of, and the issues raised by, the Hawker Committee in its review of data collection and that it works closely with representatives of the financial sector in determining the most appropriate data to be collected. The Government also recommends that APRA consider publishing information that easily and accurately represents the level of access Australians have to basic financial transaction services both face-to-face and electronic, and that this data distinguishes between the access people have in urban and rural communities. The relevant financial institutions are understood to regard APRA as the most appropriate agency to handle the collection of such data.

The Commonwealth considers it appropriate to await the outcome of APRA's review before it undertakes any separate collection of data on the access communities have to financial services. If such a collection of data is to be undertaken by the Commonwealth, then it will be done in consultation with the relevant State authorities

It is possible, however, to provide some interim data. The Government understands that Australia Post commissioned Culvenor and Associates last year to prepare data on the number of branches of the four major banks and the regional banks and on Australia Post outlets in Australian urban centre/localities (UC/Ls) with populations greater than 200 people. The data was sourced from publicly available material, in particular the Australian Payments Clearing Association (APCA) database of Bank/State/Branch (BSB) numbers and addresses as of June 1998 and the Telstra directory on compact disc.
The Department of Transport and Regional Services (DTRS), as part of its preliminary work for the RTC programme, commissioned the ABS to use this data to generate a map to illustrate the level of access regional communities with populations of between 500 and 3000 people have to financial services. A copy of this map was forwarded to the Hawker Committee for its information.

It is understood that there may be some minor inaccuracies in this data due to the way it was compiled. There are also some problems associated with the use of BSB numbers to assess bank branch numbers and locations. In particular/ BSB numbers may not pick up some franchised branch or agency arrangements. The data also excludes 1086 Licensed Post Offices (LP0s) which are in places with populations of less than 500 people.

Due to these limitations in the data, in particular the failure to cover a number of LPOs, Australia Post supplied two additional maps which represent the distribution of every LPO and corporate office that provides financial services in Australia and the distribution of branches in Australia. Due to the limitations noted above and the scale of the two smaller maps, it is important that these three maps should only be used for indicative purposes.

The three maps provided should be seen in the context of being supplementary to maps provided to the Hawker Committee by the Australian Association of Permanent Building Societies (AAPBS), which show the locations of its members' branches throughout Australia.

In light of the expected delay before APRA could be in a position to provide relevant data, the Government, through the ABS, will seek the assistance of the ABA, the Credit Union Services Corporation (Australia) Limited (CUSCAL), the AAPBS and Australia Post to obtain sufficient information to allow another more accurate map to be created along similar lines to the one the ABS generated for DTRS. It is anticipated that this would be a one-off exercise.

BANKING PRACTICES

The Committee made a number of recommendations regarding the procedures that financial service providers should adopt in the event of a branch closure.

Recommendation 3

The Committee recommends that the Code of Banking Practice be amended to require banks to give customers two months written notice before transferring accounts between branches without the permission of that customer.

The ABA advised that the notion of accounts being domiciled at a particular branch is outdated. Accounts are no longer managed by branches, but rather by central processing houses that are responsible for all of the accounts held with the financial service organisation. On this basis, the ABA advised that providing information to customers about where information relating to their account is held is irrelevant to the issue of branch closures.

Recommendation 17

The Committee recommends that in the event of closing a branch, the bank concerned waives any fees or penalties incurred relating to the early repayment of loans or closing of accounts.

The Government does not believe that financial service providers regularly charge customers fees for closing accounts other than where necessary to recover the economic costs of breaking fixed deposit or loan contracts. In any case, the nature of fixed term deposits and loans is such that customers do not generally need to interact with the financial services provider regularly and, therefore, would not need to dose these accounts if a nearby branch dosed.

The Government accepts that as part of the normal commercial arrangements between a financial service organisation and its customer, it may be necessary to impose fees on customers to recover costs in the situation where the closing of that account results in a breach of a loan contract.

However, the Government believes it is important for each financial service organisation to make clear to its customers, where customers wish to close their accounts following the withdrawal of services from a community, whether the organisation concerned would impose any service fees or penalties for closing the accounts.

Recommendation 19

The Committee recommends that the Australian Bankers' Association develops a minimum standard of service delivery as a guideline for banks in the event of closing regional and remote branches.

Recommendation 20

The Committee recommends that the industry adopts a branch closure protocol which incorporates the following:

1 *Banks will give three months notice to customers and relevant community organisations such as Local Councils of their intention to close a branch.*

2 *Banks will consult with local communities about trends in the delivery of banking services and, in particular, about developments that have the potential to affect the delivery of services in that region. Included in this will be a genuine desire to use community goodwill to improve the viability of the branch. In the event of a decision to close a branch, banks will consult with the community about preferred options for alternative services and on the training to be provided in using alternative channels.*

3 *Banks will provide written notice of at least two months before changing the branch that manages an account.*

4 *In the event of closing or downgrading a branch below agency status, banks will waive any fees or penalties incurred relating to early repayment of loans or closing of accounts.*

5 *In the event of closing a branch, banks will be expected to leave behind some form of over-the-counter service that allows access to cash deposit and withdrawal facilities for personal and small business customers.*

6 *In the event of closing a branch, banks will provide face to face education and training for customers and the community in alternative forms of banking.*

The first four items should be made mandatory and incorporated into the Code of Banking Practice.

The Government supports the Committee's recommendation that the financial service industry should adopt a branch closure protocol which provides a guideline of the minimum standards of service delivery in the event of closing regional and remote branches. Such a protocol should include industry providing adequate notice of intended branch closures and consulting with local communities. This would provide rural communities with more certainty about future access to face-to-face services.

Productive discussions have taken place with the banking industry on this matter. The Minister for Financial Services & Regulation will facilitate further discussions with the financial services industry on this matter.

The Government, in particular, wishes to see the financial services industry give some assurances that an ongoing face-to-face service that provides cash deposit and cash withdrawal facilities for personal and small business remains locally available, where viable.

Recommendation 12

The Committee recommends that the Australian Bankers' Association open discussions wit; the Australian Local Government Association and other interested organisations about the feasibility and value to communities of placing ATMs in council offices and other such locations.

The ABA advised that each financial services organisation has their own policy on the location of ATMs in/at local government offices. That said, the ABA stressed that the banking industry is keen to discuss with local governments their communities' general banking needs. The Government encourages local government to be proactive in discussing their communities' general banking needs with all financial institutions that are interested in meeting these needs.

STATE GOVERNMENT EXEMPTIONS FOR STAMP DUTY ON REFINANCED LOANS

As mentioned at Recommendation 17, the Committee found that costs may be a disincentive to customers wishing to change their financial services provider. The Committee considered it inappropriate for customers to be penalised for dosing accounts if the branch is no longer accessible.

Recommendation 18

The Committee recommends that State Governments provide exemptions for stamp duties on any mortgages in instances where customers are transferring loans to another bank as a direct result of a bank closing the branch at which the loan was made.

The Commonwealth Government received the following advice from State and Territory Governments regarding the charging of stamp duty on refinanced loans. All States and Territories provide, or at least partially provide, exemptions of the type recommended.

New South Wales	Effective 1 July 1996, the NSW Government abolished Loan Security Duty on the re-financing of a secured loan (such as a mortgage) up to the amount originally secured. As a result, home owners seeking to change their mortgage from one financial institution to another, either for reasons of convenience or cost, pay no loan security duty in NSW provided the amount borrowed is not increased.

Victoria	Since 1 May 1997, the Victoria Stamps Act 1958 has provided an exemption for stamp duty on mortgages where loans are being refinanced. The existing exemption from mortgage stamp duty will apply in the circumstances of a bank branch closure. There a e no conditions which apply to the exemption other than the borrower must be the same party in both transactions and the exemption applies only to the amount originally borrowed. If additional funds are borrowed in the refinancing (or changeover) arrangements, stamp duty would be payable on the additional amount.
Queensland	There are currently several concessions or exemptions which enable bank customers to transfer their loans from one bank to another for minimal or no stamp duty. For example, where the new financier accepts the original mortgage as security, it is possible to transfer the mortgage for nominal stamp duty of $5.00. An exemption from stamp duty is available for the refinancing of loans secured by a mortgage over a borrower's principal home provided that certain qualifying conditions are met. However, this exemption is limited to the balance owing under the previous mortgage or $100,000, whichever is the lesser. Relief from stamp duty is also available on refinancing rural loans where certain qualifying conditions are met.
Western Australia	The Government's position has been not to provide general exemptions. The reasons for this position include the administrative and revenue impacts (particularly if the exemptions were not restricted to country bank branch closures) and the element of choice for the customer (given the availability of electronic alternatives to branch banking). There is a refund scheme which enables some loans relating to farms to be exempt from stamp duty. In late 1999 the Government introduced an administrative scheme for rebating mortgage duty (as well as Financial Institutions Duty and Debits Tax) if residents transfer their banking to a new "community bank" (like those in Victoria). The establishment of a "community bank" would be seen as strong evidence that other banking alternatives in the town were inadequate.
South Australia	On 17 September 1997, the Premier announced that the Government would provide a mortgage stamp duty exemption for those persons in rural South Australia who are forced by local financial institution branch closures to move their accounts and loans to another financial institution still operating in the town. This initiative was expanded beyond that initially announced to include transfers to a financial institution in the nearest town, where the closing financial institution was the last in existence in the town affected.

Tasmania	In the 1997-98 Budget, the Tasmanian Government provided for the abolition of stamp duty on the refinancing of residential, commercial and rural loans.
Australian Capital Territory	The ACT Government does not currently impose stamp duty on mortgages or the discharge of mortgages where customers are transferring loans to another bank.
Northern Territory	The Northern Territory does not levy stamp duty on mortgages.

NON-BANK COMPETITIVENESS

CUSCAL brought to the attention of the Hawker Committee that there is, to some extent, a perception in the Australian community that credit unions are not as "safe" as banks. This misconception prevailed even though, as the Wallis Inquiry found, the prudential standards imposed by the Australian Financial Institutions Commissions on credit unions had been, in some respects, more stringent than those imposed by the RBA on the banks. One of the aims of the Wallis Reforms has been to provide a regulatory structure that, unlike the regulatory system it has replaced, is uniform, cost efficient and regulatory neutral across all the sectors it supervises.

Recommendation 4

The Committee recommends that Federal, State and Territory governments give high priority to concluding a Heads of Agreement covering transfer issues and to enacting the legislation necessary for the transfer of credit unions and other Financial Institutions Scheme bodies to the Commonwealth.

The Prime Minister, in conjunction with State Premiers and Territory Chief Ministers, signed a Financial Sector Regulation Transfer Agreement, which came into effect on 30 June 1999. The Agreement provided that the Commonwealth, States and Territories would work together to facilitate a regulatory transfer of building societies, credit unions and friendly societies from the States and Territories to the Commonwealth regulatory regime. All jurisdictions have passed legislation to enable the regulatory transfer to occur, and the transfer was achieved on 1 July 1999.

Recommendation 5

The Committee recommends that the Australian Payments Clearing Association ensures that commercial practices governing property settlements do not continue favouring or mandating bank cheques.

The Government has been informed that there are no legislative or legal impediments to the acceptance of credit union and building society cheques in property settlements in any State and Territory except Victoria. The Victorian Government is considering its position in light of the transfer of credit unions and other Financial Institutions Scheme bodies to Commonwealth prudential supervision. The Minister for Financial Services & Regulation will write to the Victorian Government welcoming the consideration being given to this issue by them and will be strongly encouraging the Victorian Government to amend its current position on this matter.

The APCA has changed its rules in relation to the acceptance of building society and credit union commercial cheques, placing them on equal footing with bank cheques. This change came into effect on 17 June 1999 and, as such, the APCA no longer favours or mandates the use of bank cheques over credit union or building society cheques and now classifies all such cheques as "financial institution cheques".

The ABA has noted that, now all such cheques are to be treated the same for the purposes of dishonour, the main impediment to their use in property settlements has been removed. Furthermore, the ABA has also said that its members accept without question that the current prudential and supervisory regime for ADI’s removes any ground for discriminating between ADI's based on whether or not they are banks.

Recommendation 6

The Committee recommends that the Victorian Government amend its legislation relating to the use of credit unions by local governments to bring it in line with other States and Territories.

The Government has been informed that Victorian local government authorities are not restricted in their use of credit unions or building societies. On 5 March 1998, the Victorian Minister for Local Government provided authority (under section 138(1)(f) of the *Local Government Act 1989)* for municipal councils to place deposits in credit unions and building societies.

Other Issues

The Committee noted the concerns of CUSCAL in relation to the input taxation of credit unions under the Goods and Services Tax (GST). To address the bias towards the self-provision of services by financial service providers that would result, the Government amended its tax reform package to include a provision for reduced input tax credits. Financial service providers will be able to claim a reduced credit for the GST embedded in specified services. These reduced input tax credits will remove the bias for financial service providers to provide specified services in house, hence promoting equitable treatment of different sized financial service providers. The measure will particularly benefit smaller institutions that outsource a larger proportion of services. The reduced input tax credit has the support of the financial sector, including credit union representatives.

In addition, the Government announced a special measure for credit unions in the *A New Tax System (Goods and Services Tax) Regulations 1999.* The regulations provide for any service supplied to a credit union, by an entity that is wholly owned by two or more credit unions, to be eligible for a reduced input tax credit. This means that credit unions will be able to claim reduced input tax credits when they purchase services from CUSCAL and other bodies owned by credit unions.

Prior to the release of the Regulations on 21 October 1999, the Government held consultations with the financial services industry (including the credit union sector) to aid in determining the finer details of the application of the GST to financial services. As part of this process, the Government released a consultation document titled *The Application of GST to Financial Services* on 17 August 1999.

RURAL TRANSACTION CENTRES

The Committee made a number of recommendations regarding the RTCs programme and before addressing the specific recommendations it may be useful to outline the nature of this programme.

The primary objective of this programme is to improve access to basic private and government transaction services in country Australia, and to do so in a way that encourages private sector and/or community based provision. The Government intends that RTCs should enhance or complement any existing or planned commercial or government transaction services in rural towns, not crowd them out.

Services that may be provided by the programme include personal banking, elements of business banking and ATMs. The aggregation of services into a single centre, combined with higher numbers of transactions and greater availability of services, enhances the viability of the RTCs and makes them financially self-sustaining after the establishment period.

Outlets such as licensed post offices, community banks, pharmacies, other small businesses, local councils or community bodies such as telecentres can deliver the services. The choice of outlet in each case will be determined by the needs of the particular town. Wherever possible, the RTCs provide face-to-face contact for members of the community conducting transactions.

The programme primarily provides assistance towards the establishment of an RTC and, in the initial years, some assistance may be provided to subsidise ongoing costs. All centres are expected to be self-sufficient in the long run.

Rural communities with populations below 3,000 are eligible for assistance. The programme is also open to other towns with a strong case for assistance.

Funding is based on applications from any non-profit organisation representing a community group or operating at town or district level. Potential applicants include local government, councils or organisations of councils, community groups, progress associations or chambers of commerce. An independent advisory panel, which makes recommendations to the Minister for Regional Services, Territories and Local Government, assesses applications.

Recommendation 7

> *The Committee recommends that the Minister for Regional Services, Territories and Local Government ensures that the Rural Transaction Centres Programme builds on State Government initiatives setting up government service centres to deliver financial services to regional areas.*

The Government recognises that the cooperation of governments at all levels will assist in the provision of financial services in rural areas. The Commonwealth Government supports State Government initiatives to improve service delivery to rural communities and is committed to ensuring that the RTC programme complements work already undertaken by State Governments.

The Government has indicated that, wherever possible, the RTCs should be co-located with existing State Government shopfronts if that is what the local community has identified as the preferred outlet.

One of the eligibility criteria for RTC funding is the extent of support from State or Territory Governments and the relationship of the project to their initiatives. The RTC Secretariat seeks the advice of the relevant State Government Departments with respect to every application. Any information provided by the State Governments is fed into the assessment process.

Recommendation 11

> *The Committee recommends that the Minister for Regional Services, Territories and Local Government gives a high priority to determine the scope of the RTC programme and the announcement of a timetable for implementation.*

The Government places a very high priority on the RTC programme and the provision of services to rural and regional Australia more generally.

As a result of the sale of an additional 16.6 per cent of Telstra, funding for the RTC programme is guaranteed with $70 million provided for the programme over the next five years.

To date 10 communities have opened RTCs with 6 communities expected to open a RTC in the next three months. More than 200 communities have been awarded funding under the RTC programme to either establish an RTC or prepare a business plan to access the feasibility of establishing an RTC in future. The Prime Minister opened the first RTC at Eugowra, New South Wales, on 29 October 1999. Since then a further 9 RTCs have opened and are operating at Bombala, Gresford, Guyra, Hallidays Point and Urana in New South Wales, Aramac in Queensland, St Marys in Tasmania, Port Broughton in South Australia and Welshpool in Victoria. A further four RTCs are expected to open in the near future.

A meeting of the independent panel on 16 March 2000 considered nine applications for project assistance and thirty-four applications for business planning assistance.

Recommendation 16

The Committee recommends that the Commonwealth Government undertakes, as part of the Rural Transaction Centres Programme, to develop a method to contract Australia Post to deliver cash to areas in which Australia Post has a presence but in which there is no other financial institution.

In the past, Australia Post has participated in the delivery of cash. In October 1996, these services ceased following Australia Post's decision to prohibit the carriage of cash over $200. This decision was made due to the increased risk to its employees. Australia Post does not have armoured cars or directly employ security guards.

The RTC programme has been designed to allow communities to develop their own solutions to their service needs. Under the programme guidelines, communities are responsible for identifying which services they need, such as banking, and for choosing an appropriate outlet for the centre. The Minister for Regional Services, Territories and Local Government said, “flexibility will be the key when assessing applications” Therefore, if an application is received which includes a request for assistance with the delivery of cash, then that will be considered by the advisory board against the eligibility criteria.

REGIONAL TELECOMMUNICATIONS INFRASTRUCTURE FUND

The Government provided $250 million over five years for the Regional Telecommunication Infrastructure Fund (RTIF), launched in June 1997 under the banner of Networking the Nation (NTN). This programme is designed to ensure that rural, regional and remote Australia has the opportunity to participate and share in the benefits available from access to advanced telecommunications services. The funds are allocated in response to applications from not-for-profit organisations including community groups to improve infrastructure and training. The Board meets two times a year to make funding decisions.

Recommendation 13

> *The Committee recommends that the Minister for Communications in consultation with the Minister for Regional Services, Territories and Local Government undertakes to assist communities to utilise the Regional Telecommunications Infrastructure Fund to expand the number of Internet Service Providers in regional and remote Australia.*

In line with the Commonwealth Government's pro-competition regulatory approach, the NTN Board has endorsed a framework for the allocation of funding for telecommunications infrastructure and services under the NTN programme. The N1N programme seeks to maximise competition, maintain a level playing field, and ensure the expertise of the private sector is utilised to the maximum possible extent in the provision and operation of network services.

In considering proposals to improve Internet access, the Board pays close attention to their potential effects on any existing and potential commercial Internet Service Providers (ISPs). The Board will, therefore, only approve direct funding for the provision of new telecommunications infrastructure and services where they are not provided commercially at a price and/ or standard of quality that makes them reasonably accessible to existing and potential users, and where there is no likelihood of such reasonable access in the near future. Successful applicants would be required to conduct open tenders for the provision of any infrastructure and services funded under the programme.

Improving Internet access to regional, rural and remote Australia is a high priority for the Board, which has approved funding for a number of projects to facilitate low cost Internet access in regional, rural and remote areas. One model, which the Committee noted in its report, is the Farmwide Regional Access Network project which aims to provide low cost Internet access through strategic trials of alternative technologies, including satellite technology, and the installation of 15 points of presence across Australia. Farmwide will also provide training and support, including the establishment of local support networks.

In areas where services are currently provided by commercial ISPs at reasonable prices and levels of service, but where communities identify the need for service improvements, the Board will not provide funds directly to establish services in competition with the existing providers. The Board will, however, consider providing funding for communities to undertake activities and develop strategies to attract new and better commercial telecommunications services into their regions. Such strategies could include demand aggregation, regional marketing activities, awareness-raising programmes and training and support activities. These activities may result in communities attracting an increased number of smaller ISPs into regional, rural and remote areas or, alternatively, may have the effect of increasing the markets of the larger, national ISPs. As noted above, successful applicants would be required to conduct open tender processes for the provision of enhanced services as a condition of NTN funding.

Under the NTN programme guidelines, organisations established primarily for profit-making purposes, for example telecommunications carriers and ISPs, are not eligible to apply for funding but their participation in funded projects is encouraged. Funding will not, therefore, be provided directly to commercial ISPs to encourage them to establish a presence in regional, rural and remote Australia.

Social Bonus Funding for Networking the Nation

The Government has provided an additional $171 million to the NTN programme from the social bonus funding, the availability of which arose from the further 16.6 per cent sale of Telstra. The Board will consider applications for funding from this additional allocation in May 2000. The new NTN funding initiatives include:

$36 million for the Internet Access Fund (LAF) to stimulate internet service delivery in regional and rural Australia, in a manner that will enhance the commercial, competitive roll-out of these services,

$45 million for the Local Government Fund to assist local government authorities in regional Australia to provide online access to information and services including the internet,

$70 million for the Building Additional Rural Networks initiative to promote ongoing, sustainable improvements in regional telecommunications services; and

$20 million for the Remote and Isolated Islands Fund to improve telecommunications for remote islands' communities.

As a result all Australians will have access to the Internet, at least equivalent to untimed local call access. The Board is responsible for the allocation of these funds. Funds will be allocated to establish community owned internet points of presence or private sector owned and operated facilities established in partnership with community organisations.

The Department of Communications, Information Technology and the Arts are currently finalising a study of issues and options to assist in implementation of the IAF. The application of the IAF may be tailored according to the findings of the study.

Recommendation 14

> *The Committee recommends that the Regional Telecommunications Infrastructure Fund Board be urged to consider internet banking prospects when assessing funding for projects.*

The NTN programme was established with a strong community focus and the range of potential needs that the programme can usefully address is very broad. As noted in the Committee's report, programme funds are approved by the NTN Board in response to funding applications from the community. Applicants are required to demonstrate that their proposals meet a number of criteria, including identified community needs.

The RTIF Board would consider any proposal to deliver an internet banking service on its merits against the programme's funding criteria, including whether or not it had been identified as a high community priority. Consideration will also be given as to how such a project might be integrated with other NTN initiatives (such as the establishment of public access points for the delivery of online services) or the RTC programme.

GIROPOST

Currently there are 41 financial institutions, consisting of 30 credit unions, 8 banks, 1 mortgage originator and 2 building societies, connected to giroPost and another 30 institutions are expected to come on stream during 2000. Australia Post has advised that all Australia Post outlets, whether giroPost equipped or not, act as agents for the Commonwealth Bank of Australia (CBA) and that where online card-based services are not provided, CBA passbook transactions are available.

Recommendation 8

The Committee recommends that the Treasurer negotiates with the Minister for Communications to ensure Australia Post's giroPost services are extended to include business banking services.

The Government agrees with the Hawker Committee that the possible loss of business banking services is one of the major problems facing communities that lose their last traditional bank branch. While the increased uptake of EFTPOS and other technological developments may, over time, reduce the need for businesses to have cash, businesses will still require reasonable access to cash transaction services in the foreseeable future.

However, as the Committee recognised in its report, Australia Post is required to act commercially and is under no obligation to provide financial services of any type to any part of Australia. As such, any decision about whether to provide business banking services will be made by Australia Post on the basis of commercial viability.

Australia Post and the Commonwealth Bank have announced a pilot joint venture to make available business banking services to rural communities . This pilot business banking transaction service began in May 2000 and has been offered through postal outlets in country towns. The pilot will be conducted in around 30 country towns in all States and, subject to its success, a roll out to a minimum of 200 postal outlets is then envisaged. Against this background, the provision of such services may be an important requirement of communities seeking funding under the RTC programme. As such, the provision of business banking services could be obtained under this programme.

Recommendation 9

The Committee recommends that the Minister for Regional Services, Territories and Local Government and the Minister for Communications negotiate an agreement whereby funding from the Rural Transaction Centres Programme be used to install giroPost or an EFTP0B style mechanism where communities are able to demonstrate that there is a need and demand for the services.

Australia Post has also advised that giroPost and Electronic Funds Transfer at Point Of Banking (EFTPOB) services are provided on a commercial basis, based on sufficient transaction volumes, and that it has recently signalled the idea of extending the giroPost network further into remote areas on a cost recovery basis. If a community decides that the best means of improving its access to transaction services is through installation of giroPost or an EFTP0B style mechanism, DTRS has advised that it may be possible to provide support for this alternative through the RTC programme.

GUILD BANK

Recommendation 10

The Committee recommends that the Minister for Financial Services and Regulation monitors that Guild Bank development with a view to facilitating such initiatives.

The Minister for Financial Services & Regulation and his Office have been kept informed of discussions between representatives of the Pharmacy Guild of Australia, BankWest, APRA and the Treasury. These discussions were entered into to facilitate the proposal and to help ensure that it addressed the appropriate prudential and other guidelines.

In a statement to the Australian Stock Exchange on 27 September 1999, it was announced that the proposed arrangement between BankWest and the Pharmacy Guild to develop banking services together would not proceed. However, BankWest also announced that it was continuing with its plans for expansion of its banking services throughout Australia using other channels., In addition, the Pharmacy Guild intends to resume negotiations with other financial service providers that had expressed interest in delivering in-store banking services through the network of 5,000 community pharmacies.

The Government welcomes these two initiatives and acknowledges the potential benefits they can bring to Australian communities. The Government will continue to monitor developments in these and other such initiatives with a view to facilitating them where possible.

FOLLOW-UP

Recommedation 21

The Committee recommends that the Minister for Financial Services and Regulation monitors the practices of banks in the event of closing branches and reports back to the committee within two years with respect to the:

- *alternative services left in place*
- *period of notice given and method of giving notice*
- *degree of community consultation involved*
- *level of education and training provided for customers, and the imposition of any fees on customers who repay loans early or close accounts as a result of the closure of that branch.*

The Minister for Financial Services and Regulation will seek the Australian Prudential Regulation Authority's assistance in monitoring the practices of financial service providers in the event of dosing branches and report back to the Committee as requested.

In regards to the timing of this report, the Government sees value in this coinciding with the intended review of the reforms of the financial system introduced following the Wallis Inquiry. The Treasurer indicated in March 1998 that:

The [Financial Sector Advisory] Council will conduct a detailed evaluation of the financial sector reforms, announced on 2 September 1997,five years after their commencement.

The forces driving the Wallis reforms - technology, globalisation and financial conglomeration - are also strong influences on the rationalisation of branch networks by the financial services industry. As such, it seems appropriate to postpone this report to the Committee for a year to enable it to be prepared in conjunction with this review.

ACRONYMS AND ABBREVIATIONS

AAPBS	Australian Association of Permanent Building Societies
ABA	Australian Bankers Association
ABS	Australian Bureau of Statistics
ADI's	Authorised Deposit-taking Institutions
APCA	Australian Payments Clearing Association
APRA	Australian Prudential Regulation Authority
ATM	Automatic Teller Machines
BSB	Bank/State /Branch
CBA	Commonwealth Bank of Australia
CUSCAL	Credit Union Services Corporation (Australia) Limited
DTRS	Department of Transport and Regional Services
EFTP0B	Electronic Funds Transfer at Point Of Banking
EFTPOS	Electronic Funds Transfer at Point of Sale
GST	Goods and Services Tax
IAF	Internet Access Fund
ISPS	Internet Service Providers
LPOs	Licensed Post Offices
NTN	Networking the Nation
RBA	Reserve Bank of Australia
RTC	Rural Transaction Centres
RTIF	Regional Telecommunication Infrastructure Fund